ADITYA ENGINEERING COLLEGE (A)

ENTREPRENEURSHIP DEVELOPMENT AND BUSINESS MANAGEMENT

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ENTREPRENEURSHIP DEVELOPMENT AND BUSINESS MANAGEMENT

IV Semester **L T P C**

Course Code: 201HS4T07 **3 0 0 3**

COB 1: Classify different types of entrepreneur, management functions and importance of financial statements.

CO2: Make use of agro based industries with various projects.

CO3: Explain WTO and trade related agreements.

CO4: Explain entrepreneurship development and business skills in field.

CO5: Recall various government policies in agricultural engineering.

SYLLABUS

UNIT – I

Entrepreneur- definition, classification; management – Management functions – planning- organizing - staffing – directing – controlling, Communication and control – Capital – Financial management – importance of financial statements – balance sheet – profit and loss statement, Analysis of financial statements – liquidity ratios – leverage ratios, Coverage ratios – turnover ratios – profitability ratios.

Entrepreneurship

- Entrepreneurship is a dynamic process of vision, change, and creation.
- It requires an application of energy and passion towards the creation and implementation of new ideas and creative solutions.
- The word entrepreneur is derived from the French verb “enterprendre”, which means “to undertake”.
- An Entrepreneur is one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying opportunities &assembling the necessary resources to capitalize on them.

An entrepreneur is a

Risk bearer

Organizer

Innovator

CLASSIFICATION BY CLARENCE DANHOF:

Clarence Danhof, On the basis of American agriculture, classified entrepreneurs in the following categories

- Innovating Entrepreneurs
- Imitative Entrepreneurs
- Fabian Entrepreneurs
- Drone Entrepreneurs

INNOVATIVE ENTREPRENEURS

- An innovative entrepreneur, introduces new goods, inaugurates new methods of production, discovers new markets and reorganizes the enterprise.
- Innovative entrepreneurs bring about a transformation in lifestyle and are always interested in introducing innovations.

ADOPTIVE OR IMITATIVE ENTREPRENEURS

- Imitative entrepreneurs do not innovate the changes themselves, they only imitate techniques and technology innovated by others.
- They copy and learn from the innovating entrepreneurs.
- While innovating entrepreneurs are creative, imitative entrepreneurs are adoptive.

FABIAN ENTREPRENEURS

• These entrepreneurs are traditionally bounded.

• They would be cautious.

• They neither introduce new changes nor adopt new methods innovated by others entrepreneurs.

• They are shy and lazy. They try to follow the footsteps of their predecessors.

• They follow old customs, traditions, sentiments etc. They take up new projects only when it is necessary to do so.

DRONE ENTREPRENEURS

- Drone entrepreneurs are those who refuse to adopt and use opportunities to make changes in production.
- They would not change the method of production already introduced.
- They follow the traditional method of production.
- They may even suffer losses but they are not ready to make changes in their existing production methods.

Manager – Someone who coordinates and oversees the work of other people so that organizational goals can be accomplished.

Levels of Management

- **First-line Managers -** Individuals who manage the work of non-managerial employees.
- **Middle Managers -** Individuals who manage the work of first-line managers.
- **Top Managers -** Individuals who are responsible for making organization-wide decisions and establishing plans and goals that affect the entire organization.

Functions of Management

- **Planning** – Defining goals, establishing strategies to achieve goals, and developing plans to integrate and coordinate activities. According to KOONTZ, “Planning is deciding in advance - what to do, when to do & how to do. It bridges the gap from where we are & where we want to be”.
- It is the basic function of management. It deals with chalking out a future course of action & deciding in advance the most appropriate course of actions for achievement of pre-determined goals.
- **Organizing** – Arranging and structuring work to accomplish organizational goals. According to Henry Fayol, “To organize a business is to provide it with everything useful or its functioning i.e. raw material, tools, capital and personnel’s”.

- It is the process of bringing together physical, financial and human resources and developing productive relationship amongst them for achievement of organizational goals.

Staffing:

- It is the function of manning the organization structure and keeping it manned.
- Staffing has assumed greater importance in the recent years due to advancement of technology, increase in size of business, complexity of human behavior etc.
- The main purpose of staffing is to put right man on right job
- Recruiting, selecting, appointing the employees, assigning duties, maintaining cordial relationship and taking care of grievances of employees.

- Training and Development of employees, deciding their remuneration, promotion and increments.
- Evaluating their performance.

Directing

- Giving direction or instruction to employees to get the job done.
- Leadership qualities are required.
- Motivating employees by providing monitory and non-monitory incentives.
- Communicating with them at regular intervals.

- It is that part of managerial function which actuates the organizational methods to work efficiently for achievement of organizational purposes.
- It is considered life-spark of the enterprise which sets it in motion the action of people because planning, organizing and staffing are the mere preparations for doing the work.
- Direction is that inert-personnel aspect of management which deals directly with influencing, guiding, supervising, motivating sub- ordinate for the achievement of organizational goals.

- **Controlling** – Monitoring, comparing, and correcting work. According to Koontz & O'Donell "Controlling is the measurement & correction of performance activities of subordinates in order to make sure that the enterprise objectives and plans desired to obtain them as being accomplished"
- The purpose of controlling is to ensure that everything occurs in conformities with the standards.
- An efficient system of control helps to predict deviations before they actually occur.

Financial Management

1.The planning, organizing, directing and controlling the financial activities of an enterprise.

2.Concerns with procurement, allocation and control of financial resources.

3.It refers the efficient and effective management of money (funds) in such a manner as to achieve the goals of the organization.

4.The finance manager must see that funds are procured in such a manner that risk, cost and control considerations are properly balanced and there is optimum utilization of funds.

Some definitions

- “Financial management is the activity concerned with planning, raising, controlling and administering of funds used in the business.” – Guthman and Dougal
- “Financial management is that area of business management devoted to a judicious use of capital and a careful selection of the source of capital in order to enable a spending unit to move in the direction of reaching the goals.” – J.F. Brandley
- “Financial management is the operational activity of a business that is responsible for obtaining and effectively utilizing the funds necessary for efficient operations.”- Massie
- According to Soloman , “Financial management is concerned with the efficient use of economic resources”.
- According to Phillippatus , “Financial management is concerned with management decision that result in acquisition and financing of long-term and short-term credits for the firm”.

Objectives

- To ensure regular and adequate supply of funds
- To ensure adequate returns to the shareholders
- To ensure optimum funds utilization
- To plan a sound capital structure (sound and fair composition of capital-balance is maintained between debt and equity capital).
- Profit Maximisation
- Maintenance of liquid assets
- Building up reserves for growth and expansion
- Ensuring financial discipline in the organization

Financial Statements

Financial Statements represent a proper and formal record of the financial activities of an organization. These are written reports that evaluate the financial stability, performance and liquidity of a company. Financial

Basic Financial Statements

Three types of financial statements are selected by the accounting and financial regulatory authorities:

1. Income statement
2. Balance sheet
3. Cash flow statement/ Profit and Loss statement

Income statement

- How much money a company made last year. It includes the followings: Revenue, expense, profits over a year or quarter.

•An income statement is one of the three (along with balance sheet and statement of cash flows) major financial statements that reports a company's financial performance over a specific accounting period.

•Net Income = (Total Revenue + Gains) – (Total Expenses + Losses)

•Total revenue is the sum of both operating and non-operating revenues while total expenses include those incurred by primary and secondary activities.

•An income statement provides valuable insights into a company’s operations, the efficiency of its management, under-performing sectors and its performance relative to industry peers.

Balance Sheets

- The current financial situation of the company
- A balance sheet reports a company's assets (value of what a company owns), Liabilities (value of company's debts), and Shareholder’s equity (the money invested by the company owners) at a current time.
- A balance sheet provides both investors and creditors with a snapshot as to how effectively a company's management uses its resources.
- The balance sheet adheres to an equation that equates assets with the sum of liabilities and shareholder equity.
- Fundamental analysts use balance sheets to calculate financial ratios.

P& L Statements

- The profit and loss statement is a financial statement that summarizes the revenues, costs, and expenses incurred during a specified period.
- The P&L statement is one of three financial statements every public company issues quarterly and annually, along with the balance sheet and the cash flow statement.
- When used together, the P&L statement, balance sheet, and cash flow statement provide an in-depth look at a company's financial performance together.
- Statements are prepared using the cash or accrual method of accounting.
- It is important to compare P&L statements from different accounting periods, as any changes over time become more meaningful than the numbers themselves.

Importance of Financial statements

- Financial statements are important to investors because they can provide enormous information about a company's revenue, expenses, profitability, debt load, and the ability to meet its short-term and long-term financial obligations.
- Financial statements provide a snapshot of a corporation's financial health, giving insight into its performance, operations, and cash flow.
- Financial ratio analysis involves the evaluation of line items in financial statements to compare the results to previous periods and competitors.

Financial Statement Analysis

- Financial statement analysis is the process of analyzing a company's financial statements for decision-making purposes.
- Financial Statement Analysis is a process which examines past and current financial data for the purpose of evaluating performance and estimating future risks and potential
- Financial statement analysis is used by internal and external stakeholders to evaluate business performance and value.
- Financial accounting calls for all companies to create a balance sheet, income statement, and cash flow statement which form the basis for financial statement analysis.
- Horizontal, vertical, and ratio analysis are three techniques analysts use when analyzing financial statements.

- Horizontal analysis involves comparing historical data. Usually, the purpose of horizontal analysis is to detect growth trends across different time periods.
- Vertical analysis compares items on a financial statement in relation to each other. For instance, an expense item could be expressed as a percentage of company sales.
- Ratio analysis, compare a company's financial standing with industry averages while measuring how a company stacks up against others within the same sector.

Liquidity Ratio

•A liquidity ratio is used to determine a company’s ability to pay its short-term debt obligations.

•The three main liquidity ratios are the current ratio, quick ratio, and cash ratio.

Leverage Ratio

- A leverage ratio is any one of several financial measurements that look at how much capital comes in the form of debt (loans) or assesses the ability of a company to meet its financial obligations.
- Common leverage ratios include the debt-equity ratio, equity multiplier, degree of financial leverage, and consumer leverage ratio.

Coverage Ratio

•A coverage ratio, broadly, is a measure of a company's ability to service its debt and meet its financial obligations.

•The higher the coverage ratio, the easier it should be to make interest payments on its debt or pay dividends.

•Common coverage ratios include the interest coverage ratio, debt service coverage ratio, and asset coverage ratio.

Turnover Ratio:

- In accounting, turnover ratios are the financial ratios in which an annual income statement amount is divided by an average asset amount for the same year. Generally, the larger the turnover the better.
- The turnover ratios indicate the efficiency or effectiveness of a company's management.
- Some of the turnover ratios are: Accounts receivable turnover ratio, Inventory turnover ratio, Total assets turnover ratio, Fixed assets turnover ratio, Working capital turnover ratio

Profitability ratios

•Profitability ratios assess a company's ability to earn profits from its sales or operations, balance sheet assets, or shareholders' equity.

•Profitability ratios indicate how efficiently a company generates profit and value for shareholders.

•Higher ratio results are often more favorable, but these ratios provide much more information when compared to results of similar companies, the company's own historical performance, or the industry average.